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ORIGIN ARA-20

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

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DRAFTED BY ARA/LA-PLC:JLMARTIN

APPROVED BY ARA/LA-PLC:RJBLOOMFIELD

S/S- WLUERS

S-MR. BREMER

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TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS PRIORITY

C O N F I D E N T I A L STATE 045412

E.O. 11652: GDS

TAGS: PFOR, OCON

SUBJECT: MFM: DISCUSSION OF AGENDA ITEM 10: THE ENERGY
CRISIS

1. THE FOLLOWING IS A SUMMARY OF THE DISCUSSION OF ITEM
10 THE ENERGY CRISIS, AT THE MFM IN MEXICO CITY. THESE
REMARKS WERE TRANSCRIBED BY U.S. REPRESENTATIVES PRESENT
AT THE MEETING.

IT IS PROVIDED FOR YOUR BACKGROUND USE.

2. SECTY KISSINGER: SINCE IT IS LATE, I WILL MERELY
EXPLAIN WHAT US DOING. THERE ARE THREE ASPECTS TO ENERGY
CRISIS: (1) EMBARGO, (2) LIMITATION OF SUPPLY, (3) PRICE
RISE.

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A. EMBARGO. US HAS NOT ASKED FOR ASSISTANCE. WE

WILL SOLVE THIS ASPECT. DOES, HOWEVER, RAISE QUESTION OF ECONOMIC COERCION IN GENERAL. JUST AS DCS SHOULD NOT USE ECONOMIC POWER FOR BLACKMAIL, REVERSE ALSO TRUE.

B. SUPPLY. PARTLY DUE TO INFLATION IN DCS. PARTLY DUE TO EXCESS ACCUMULATION OF CAPITAL BY PRODUCER COUNTRIES. SOME THINK OIL IN GROUND BETTER THAN MONEY IN BANK.

C. PRICE. MANY COUNTRIES SHORTSIGHTED BECAUSE DON'T KNOW WHAT LONG-TERM SETTLEMENT WILL BE. I AGREE WITH CALVANI PRICES WERE TOO LOW. HOWEVER, PROBLEM NOT SOLVED WHEN PRICES MOVE TO OTHER EXTREME. WHAT NOT FULLY UNDERSTOOD IS THAT AT PRESENT PRICES SHORTLY WILL BE SLIGHT SURPLUS PETROLEUM ON MARKET. PRODUCERS DON'T REALIZE PRICE WILL HAVE TO COME DOWN. COUNTRIES MAKING BILATERAL AGREEMENTS AT PRESENT PRICES HURTING THEMSELVES. TO MAINTAIN PRESENT PRICES, PRODUCERS WOULD HAVE TO CUT PRODUCTION 30 PERCENT; THIS WOULD INTRODUCE DIFFICULT PROBLEM HOW TO DISTRIBUTE CUTS.

D. MISCONCEPTIONS. TAKING DOLS 10 A BARREL AS BASE AND ASSUMING 10 PERCENT EARNING ON INVESTMENT, COMPARABLE PRICE PER BARREL OF OIL IN EARLY 1980S WOULD HAVE TO BE DOLS 22 IF OIL IN GROUND TO BE MORE VALUABLE THAN PROCEEDS FROM INVESTMENTS. OIL WILL NOT BE SOLD AT DOLS 22 IN EARLY 1980S. ALTERNATE ENERGY SOURCES WILL BE COMING INTO OPERATION AT THAT TIME. BY MID 1980S WE WELL MAY HAVE SURPLUS OF ENERGY.

E. WE HAVE NO INTENTION CONFRONTING PRODUCERS. I WANT ASSURE VENEZUELA IT NOT IN OUR INTEREST TO SEE PRICES TOO REDUCED. THIS WOULD REMOVE INCENTIVE FOR DEVELOPING ALTERNATIVE SOURCES AND MAKE UNECONOMICAL EXPLOITATION SOURCES SUCH AS COAL.

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F. WE HOPE CONSUMERS WILL EXAMINE CONSERVATION MEASURES AND ALTERNATE SOURCES OF ENERGY. US CAN ACT UNILATERALLY. WE HAVE LITTLE TO GAIN BY COORDINATED APPROACH. HOWEVER, WE ACTING TO PREVENT 1930S TYPE AUTARKY WITH RESULTANT THREAT TO INTERNATIONAL STABILITY. NATIONALISM WHICH-LEADS TO INCREASING CONFIDENCE IS POSITIVE FACTOR IN ASSURING INTERNATIONAL STABILITY. NATIONALISM

MANIFEST IN BEGGAR-THY-NEIGHBOR POLICY HAS OPPOSITE EFFECT.

G. PRODUCERS HAVE INTEREST IN STEADY FLOW OF INCOME. CONSUMERS HAVE EQUAL INTEREST IN STEADY SUPPLY. US ENERGY IMPORTS HAVE SUFFERED 7 PERCENT REDUCTION AS RESULT OF EMBARGO. WE HAVE SAVED 4 PERCENT THROUGH CONSERVATION MEASURES. HIGH PRICES BRINGING ALTERNATE SOURCES OF SUPPLY INTO PRODUCTION. OVERALL, US ONLY 15 PERCENT DEPENDENT ON IMPORTS. NET RESULT OF CRISIS HAS ACTUALLY BEEN

IMPROVEMENT US BOP SITUATION.

H. WE BELIEVE INTERNATIONAL CONFERENCE WOULD LEAD TO EQUITABLE SOLUTION. CONFERENCE SHOULD BE ABLE TO GUARANTEE BOTH CONSUMERS AND PRODUCERS WHAT THEY NEED. IT ESSENTIAL FOR ORDERLY INTERNATIONAL PROGRESS. PRODUCERS CANNOT BE INTERESTED IN WORLD ECONOMIC COLLAPSE. THEIR SAVINGS WOULD BE WORTHLESS. ALSO THEY HAVE NO INTEREST IN ANY VIOLENT ATTEMPTS TO RESOLVE SHORTAGES. WE DON'T BELIEVE CONFRONTATION IS NEEDED; CALM ANALYSIS IS NEEDED. I BELIEVE PROBLEM CAN BE RESOLVED. THESE ARE OUR AIMS. ENERGY WORKING GROUP MEETING IN WASHINGTON NEXT WEEK TO BEGIN EFFORTS ON DATA BANK AND OTHER MEASURES ESSENTIAL TO CAREFUL ANALYSIS OF ISSUE.

I. USG PREPARED FOR SIMILAR DISCUSSIONS WITH LA WE ARE PREPARED TO SHARE OUR CONCLUSIONS. WE ARE NOT ASKING FOR RECIPROCAL CONCESSIONS.

J. ENERGY PROBLEM IS FORERUNNER OTHER PROBLEM TO
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COME. WITHOUT COOPERATION THERE WILL BE NO PEACE. THERE CAN BE NO DEVELOPMENT WITHOUT SENSE OF STABILITY. IN THIS SPIRIT USG WILL GO TO AND PARTICIPATE IN UNGA ENERGY CONFERENCE.

3. FONMIN RABASA (MEXICO): TO MAKE HISTORY IS TO BE CONCERNED, TO DO SOMETHING ABOUT PROBLEMS. IF TO MAKE HISTORY IS TO TRY TO CREATE FAIR WORLD, TO PAY ATTENTION TO DISPOSSESSED TO HAVE FRANK DIALOGUE, TO FRATERNALLY EXPRESS IDEAS AND TRY TO REACH COMMON GOALS, THEN I THINK TODAY HISTORY HAS BEEN MADE. TO COLLEAGUES I WANT TO SAY I AM PROUD OF WHAT HAS TAKEN PLACE. WE MUST ALSO RECOGNIZE HARD WORK OF EXPERTS. I THINK WE CAN SAY GOODBYE TOMORROW KNOWING THAT WE HAVE COMPLETED OUR TASK. TO SECTY KISSINGER I WANT TO SAY NO ONE COULD EVER CLAIM

YOU HAVE NOT GIVEN US YOUR FULL ATTENTION. WE
APPRECIATE THAT, KISSINGER

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